

The USDA Cotton Outlook for 2008/09

**Interagency Cotton Estimates Committee
U.S. Department of Agriculture**

Presented by

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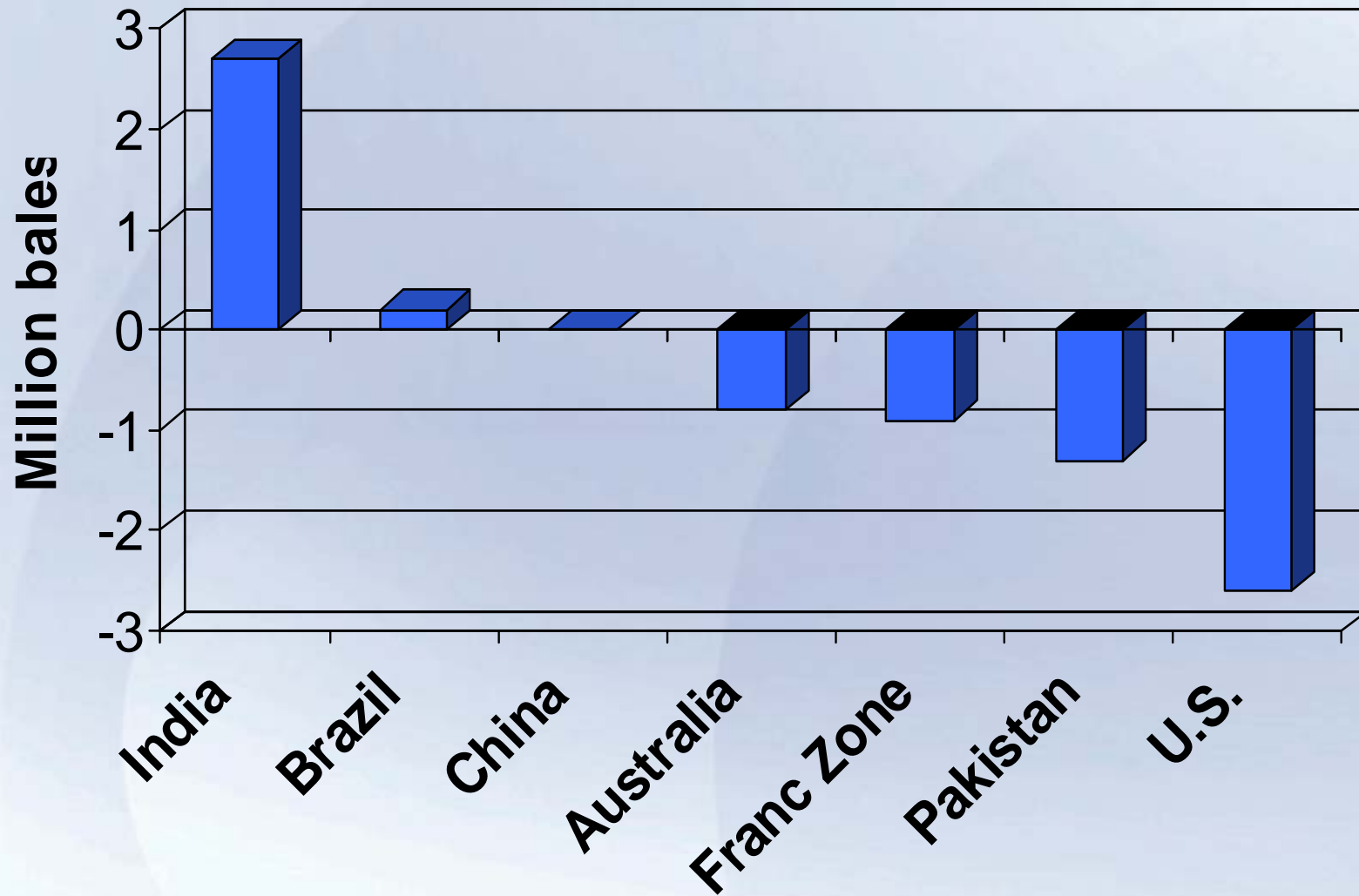


Cotton at a Crossroads in the Global Market

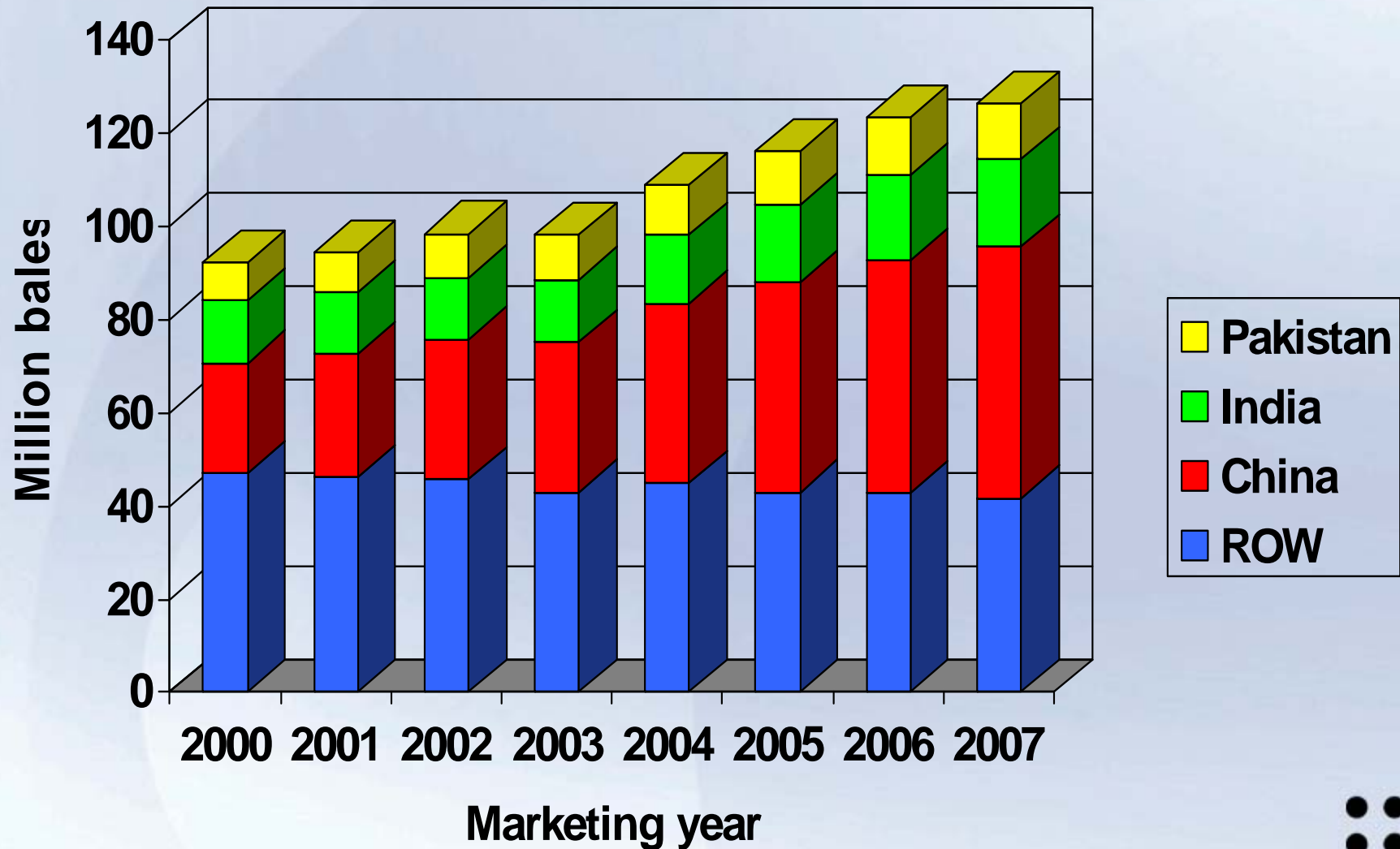
- Cotton more integrated into global market over last 10 years.
- Removal of MFA quotas altered world textile industries dramatically.
- Emerging bio-fuels market integrating agriculture and energy.



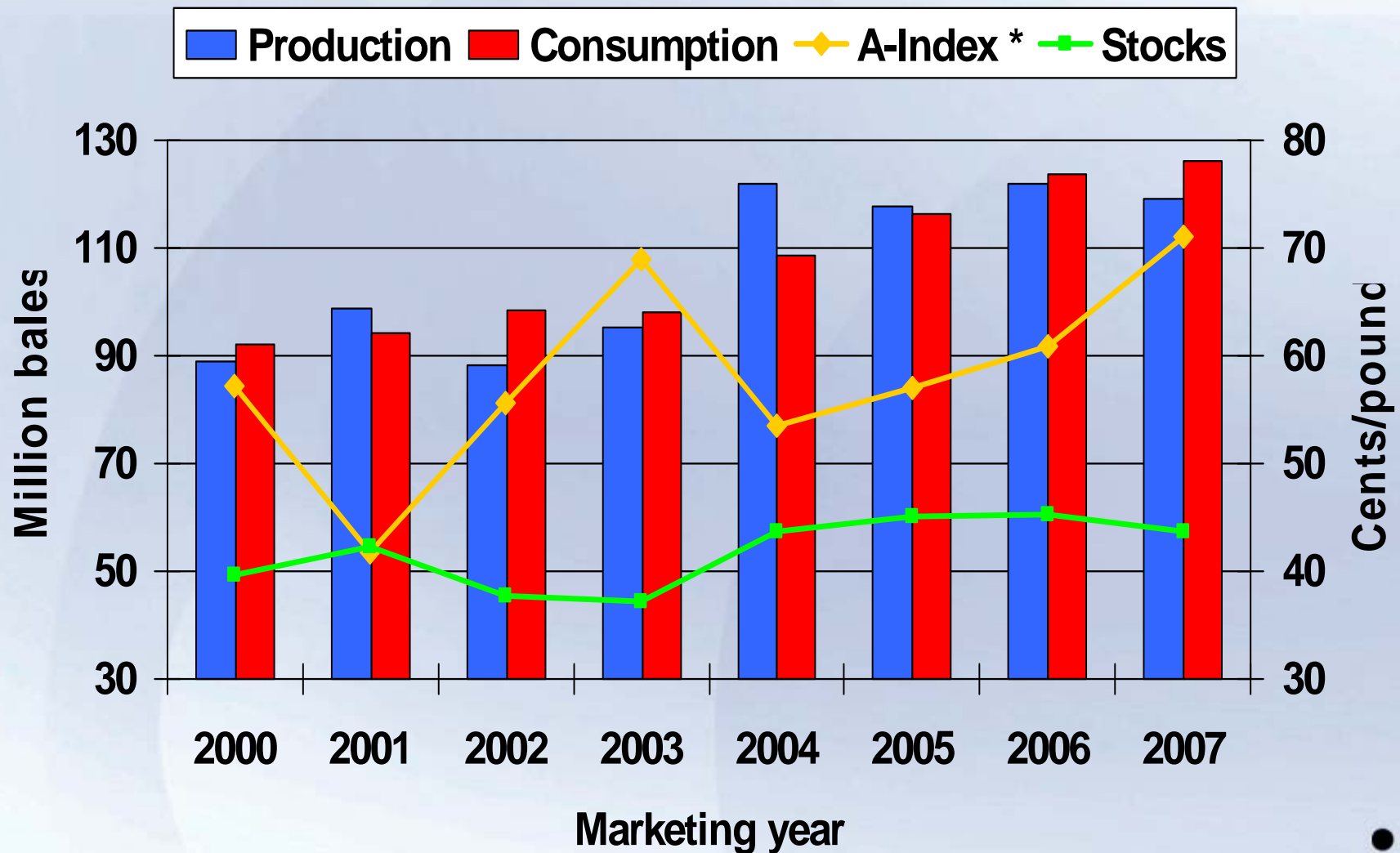
Projected Changes in World Production 2007/08 vs. 2006/07



World Cotton Consumption Growth Slows



World Cotton Production, Consumption, and Stocks



* 2007 price is August-January average.



Basis for USDA's 2008/09 Forecasts

- Normal weather and growing conditions.
- Global economic growth improves in calendar 2009 vs. 2008.
- China's raw cotton import demand remains strong.
- Continuation of the current U.S. and foreign agricultural policies.



2008/09 World Consumption Growth Stabilizes

- During 2000-2006, cotton consumption growth rate averaged 4.5%.
 - Strong world economic growth.
 - Favorable cotton prices relative to polyester.
 - Liberalization of global textile trade.
- Consumption forecast at 2.5% growth in 2008/09.
 - Projection at a record 129.5 M bales.
 - Growth limited by higher cotton prices and economic slowdown in U.S. and Europe.



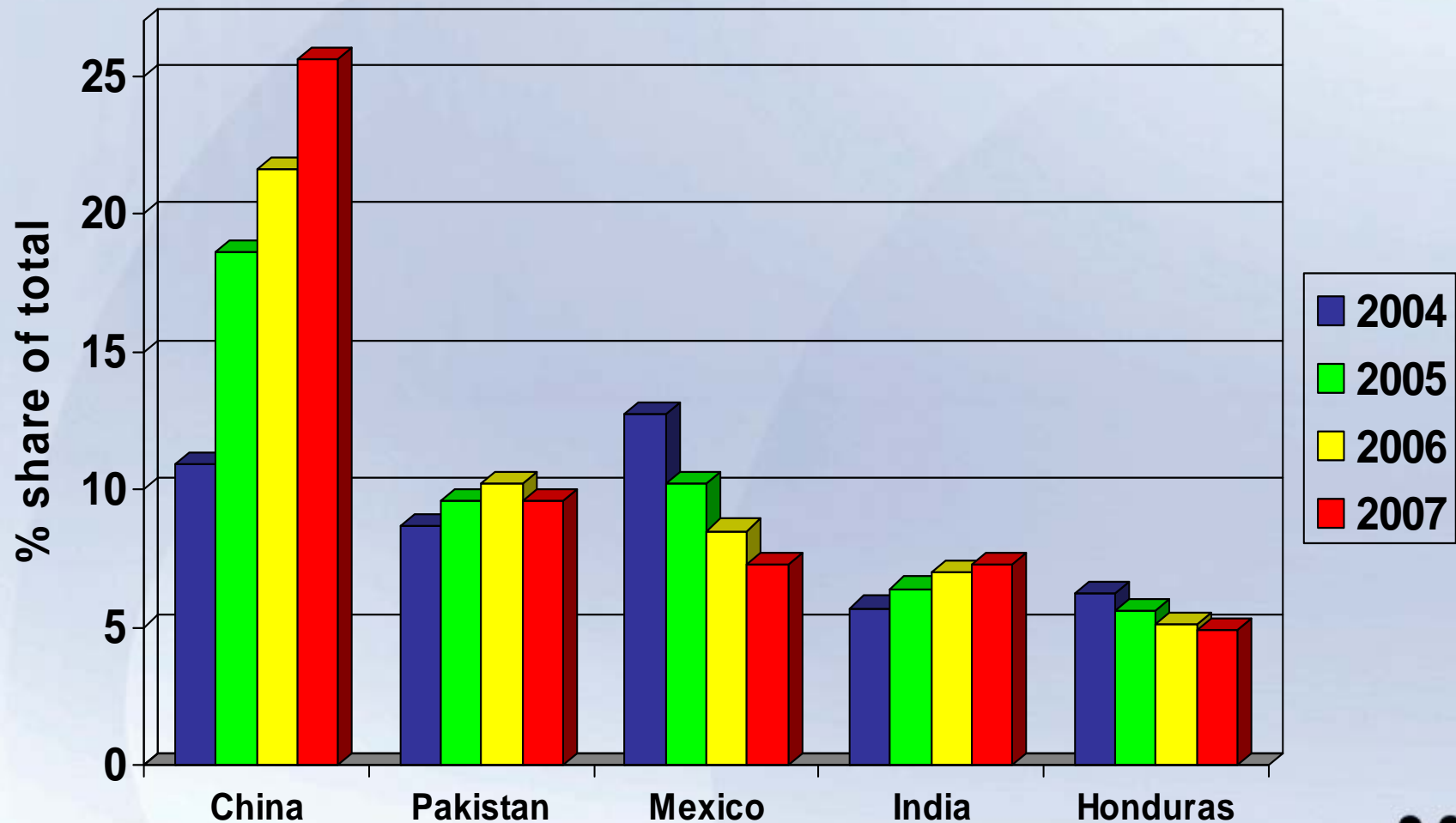
China Dominates 2008/09 Cotton Consumption

- Consumption growth in China slows to about 5%.
 - Accounts for 75% of foreign consumption increase.
 - Projection at a record 56.5 M bales.
 - Constitutes 44% of global mill use.
- Small consumption gains also are likely in other developing countries.
- U.S. mill use continues downward trend to lowest level in a century (4.5 M bales).



U.S. Cotton Textile Imports Share by Origin for Top 5 Suppliers

(raw-fiber equivalent basis)



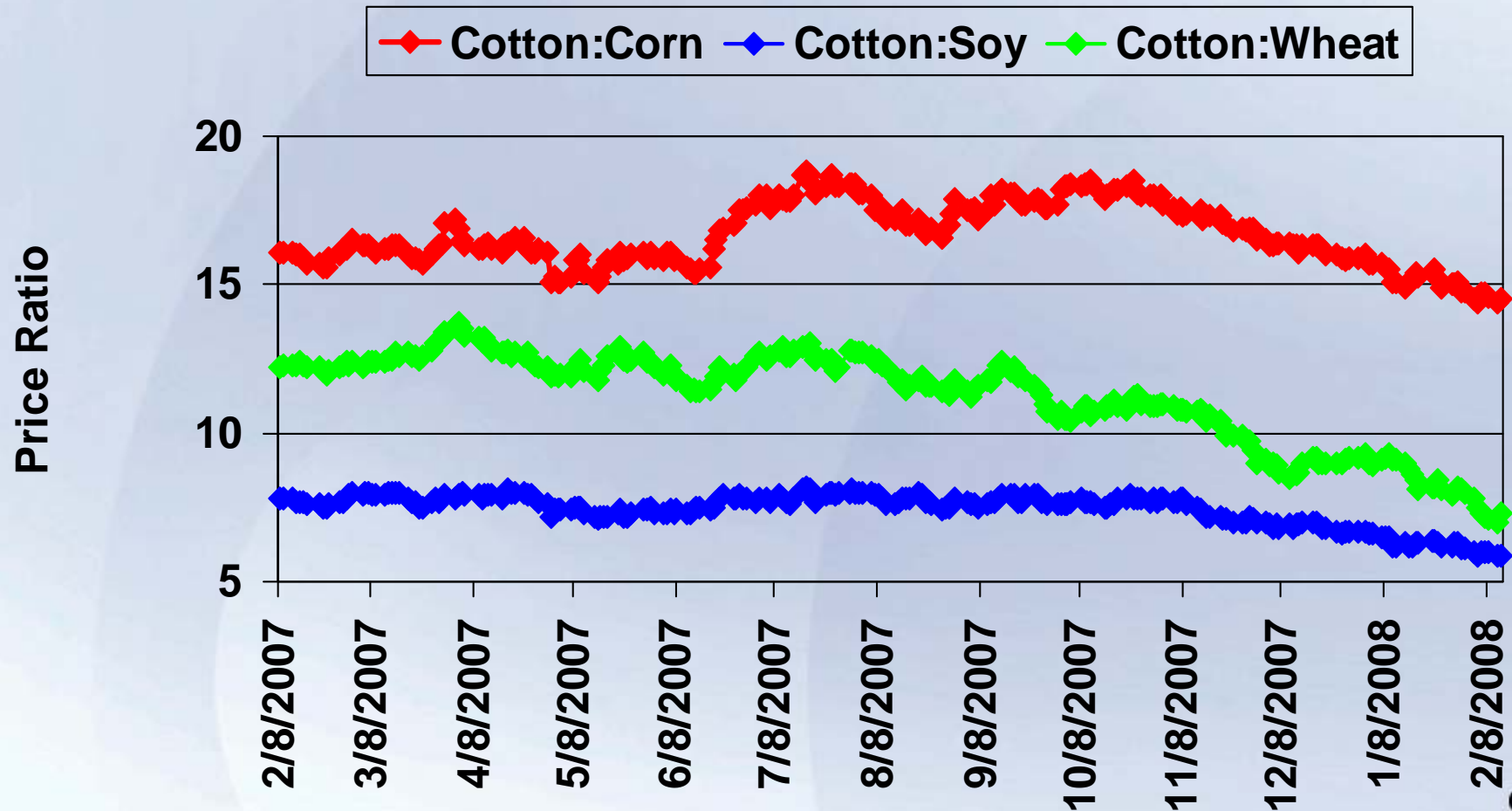
2008/09 World Production Rises 3 Percent

- Record foreign production more than offsets a 20% reduction in U.S. cotton output.
- China's cotton crop expands 4%.
 - Area and yield rise slightly despite higher grain prices.
 - Output projected to reach 37 M bales, 30% of global crop.
- India continues expansion, benefiting from Bt adoption.
- Most other major foreign producers expected to increase output under normal weather conditions.
- U.S. production sharply lower, as area falls below 10 M acres.



Futures Price Ratios, Cotton to Competing Crops

(Feb. 8, 2007 to Feb.12, 2008)



2008/09 U.S. Cotton Production Outlook

- Area expected to fall as grain and oilseed prices more attractive.
 - Acreage decline of 12% anticipated (1.3 M acres).
 - Area estimated at 9.5 M acres, lowest since 1983 PIK year.
- Regional makeup expected to raise abandonment and reduce yield.
 - Large shifts expected out of Delta cotton.
 - Southwest region to account for 50%+ of total area.
- Crop projected at 15 M bales, lowest in a decade.



Drought Likely to Continue Through Planting

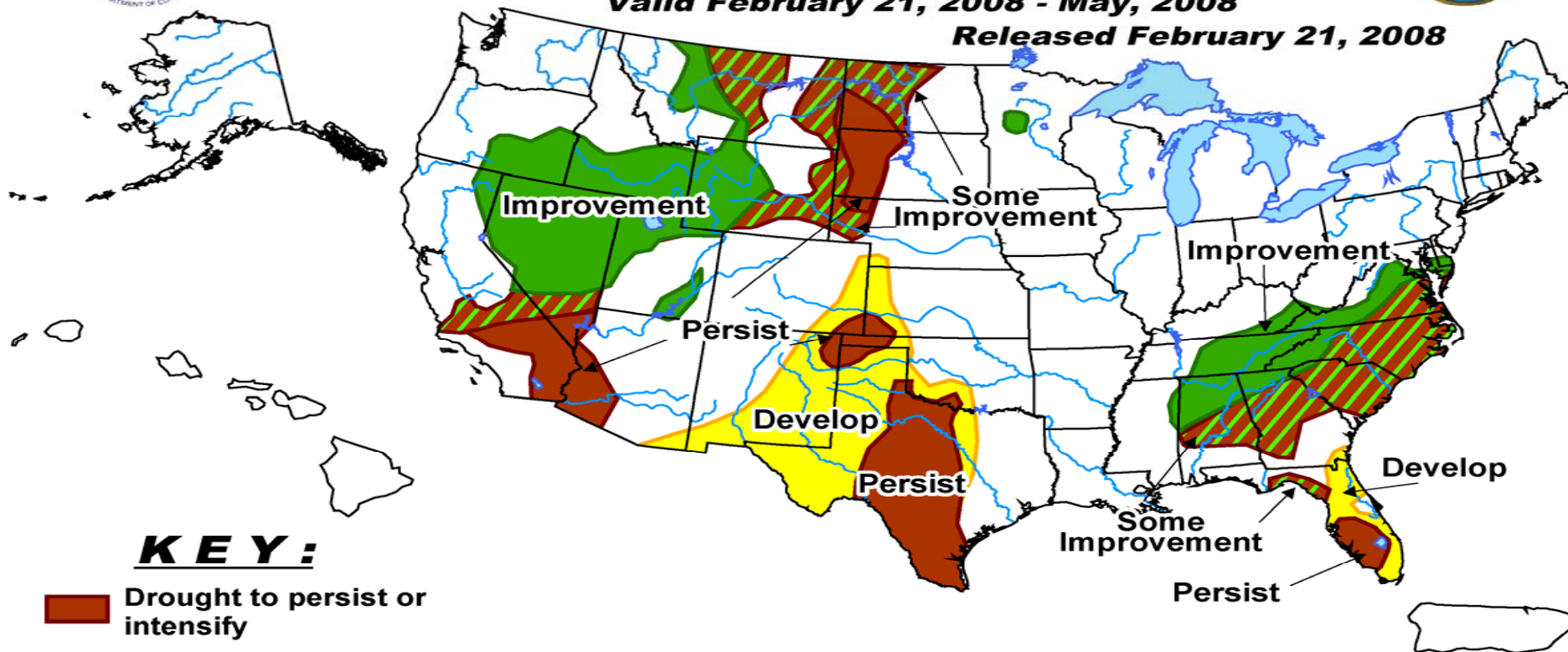


U.S. Seasonal Drought Outlook





Drought Tendency During the Valid Period

Valid February 21, 2008 - May, 2008

Released February 21, 2008



KEY:

-  Drought to persist or intensify
-  Drought ongoing, some improvement
-  Drought likely to improve, impacts ease
-  Drought development likely

Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events -- such as individual storms -- cannot be accurately forecast more than a few days in advance. Use caution for applications -- such as crops -- that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor. NOTE: the green improvement areas imply at least a 1-category improvement in the Drought Monitor intensity levels, but do not necessarily imply drought elimination.

2008/09 Global Trade Remains Substantial

- Rising world consumption increases import needs.
- China continues as key importer (17 M bales).
 - Consumption-production shortfall projected at 19.5 M bales.
 - Stocks-to-use ratio remains relatively low.
- U.S. remains in position to supply foreign import needs--highest exportable supply in 100+ years.

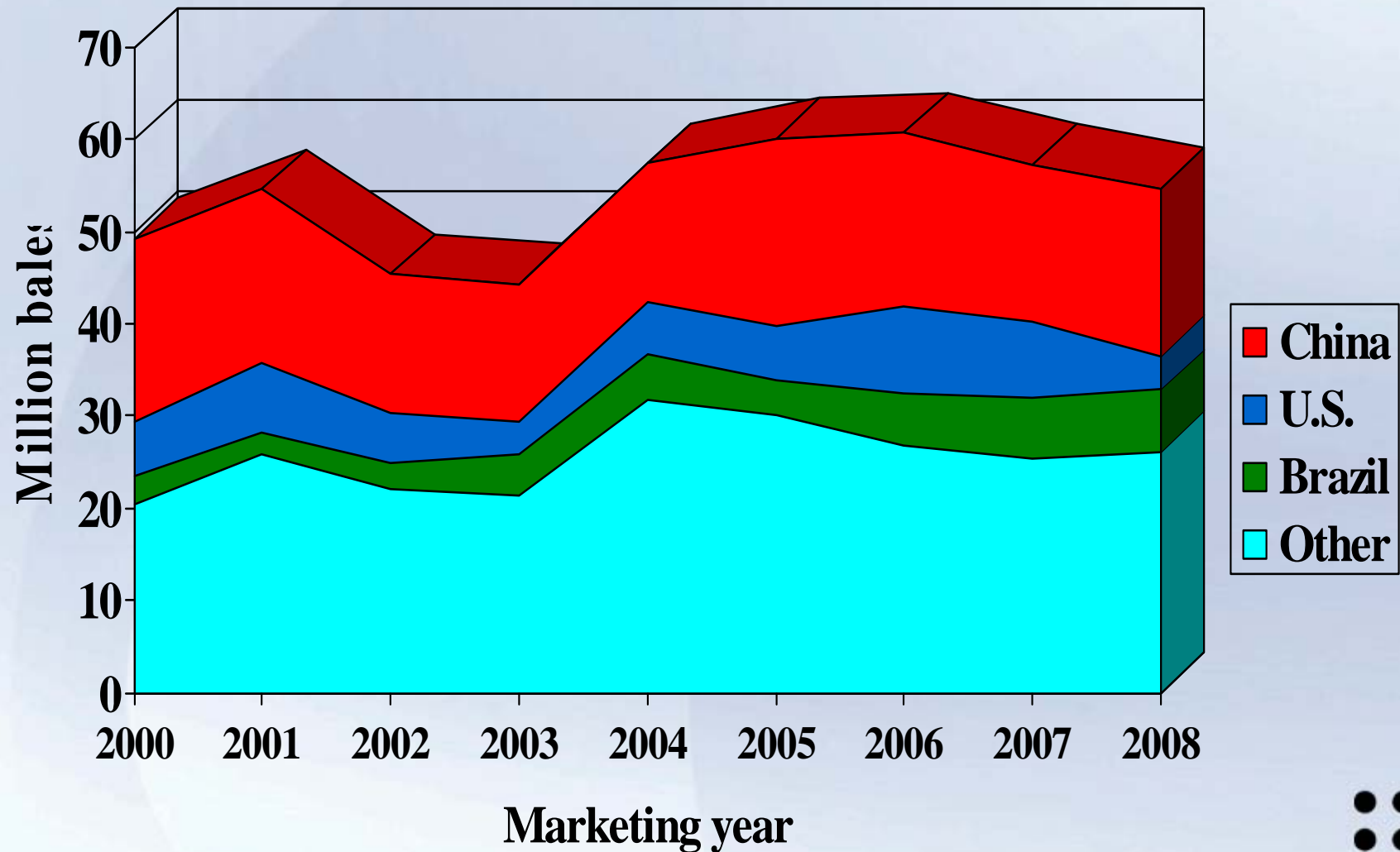


U.S. Cotton Exportable Supply

(Exportable Supply = Total Supply - Mill Use)



U.S., China, Brazil, & Other Foreign Stocks





Additional Cotton Information

For additional cotton information and data:

See the Economic Research Service's
Cotton Briefing Room at

www.ers.usda.gov/briefing/cotton/



U.S. Cotton Supply-Demand Estimates (Million bales)

	<u>2007/08</u>	<u>2008/09</u>
Beg. Stocks	9.5	8.2
Production	19.0	15.0
Imports	<u>0.0</u>	<u>0.0</u>
Total Supply	28.5	23.2
Mill Use	4.6	4.5
Exports	<u>15.7</u>	<u>15.0</u>
Total Use	20.3	19.5
Ending Stocks	8.2	3.7

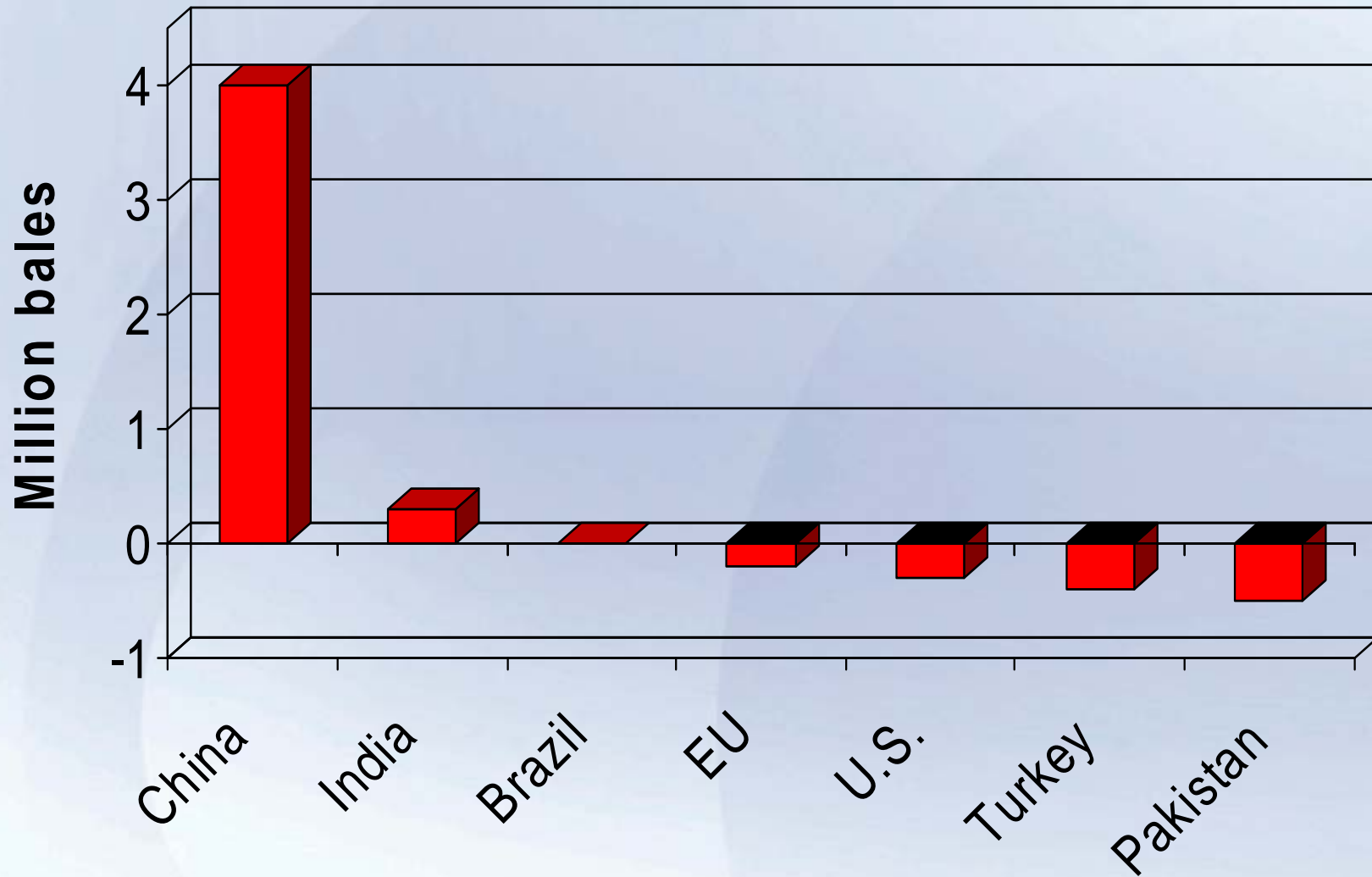


World Cotton Supply-Demand Estimates (Million bales)

	<u>2007/08</u>	<u>2008/09</u>
Beg. stocks	60.7	57.3
Production	119.2	123.0
Imports	<u>40.3</u>	<u>43.1</u>
Total Supply	220.2	223.4
Consumption	126.3	129.5
Exports	<u>40.1</u>	<u>42.7</u>
Total Use	166.4	172.2
Residual	<u>-3.5</u>	<u>-3.5</u>
Ending Stocks	57.3	54.7

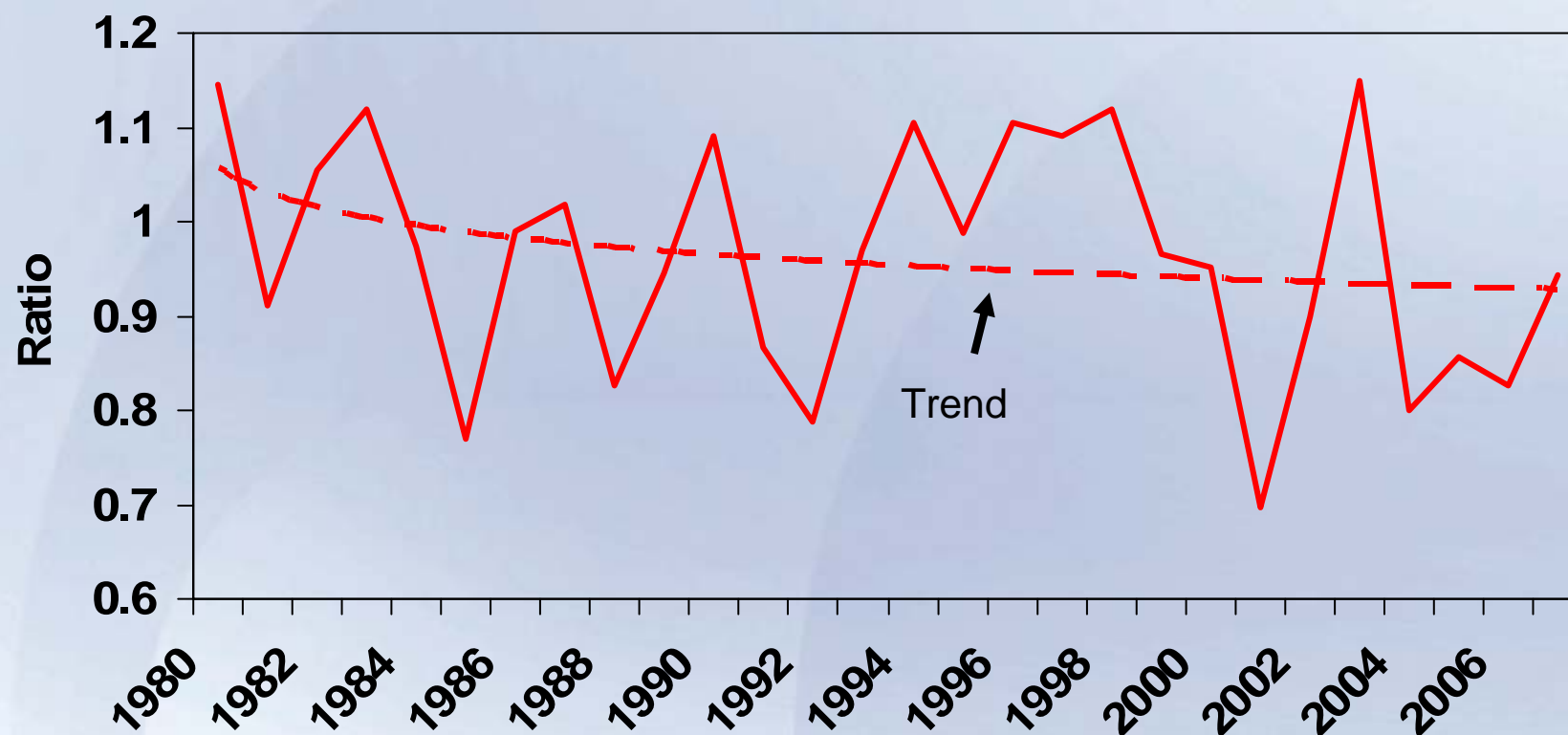


Projected Changes in World Consumption 2007/08 vs. 2006/07



Cotton-Polyester Price Ratio

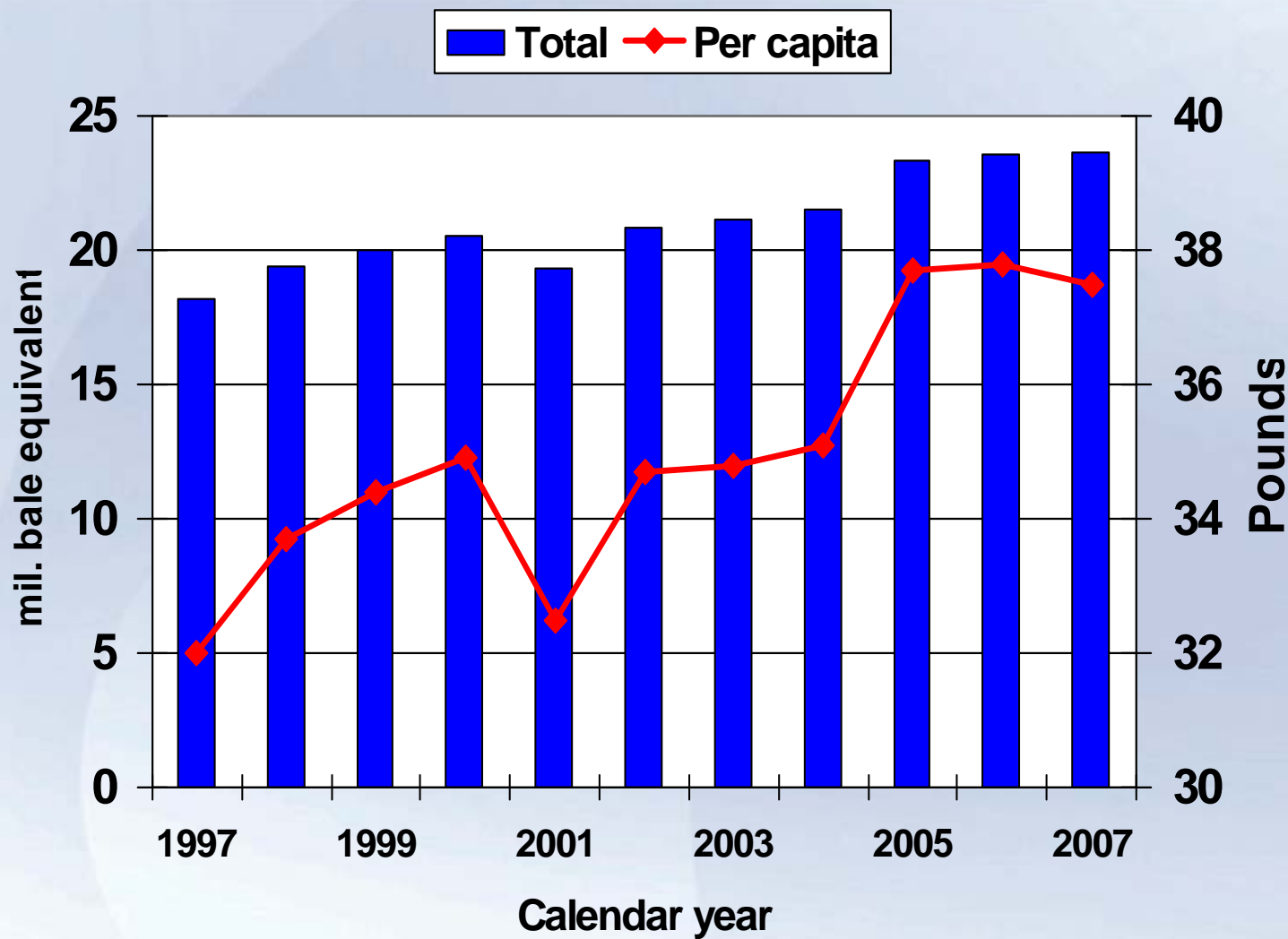
Rose in 2007



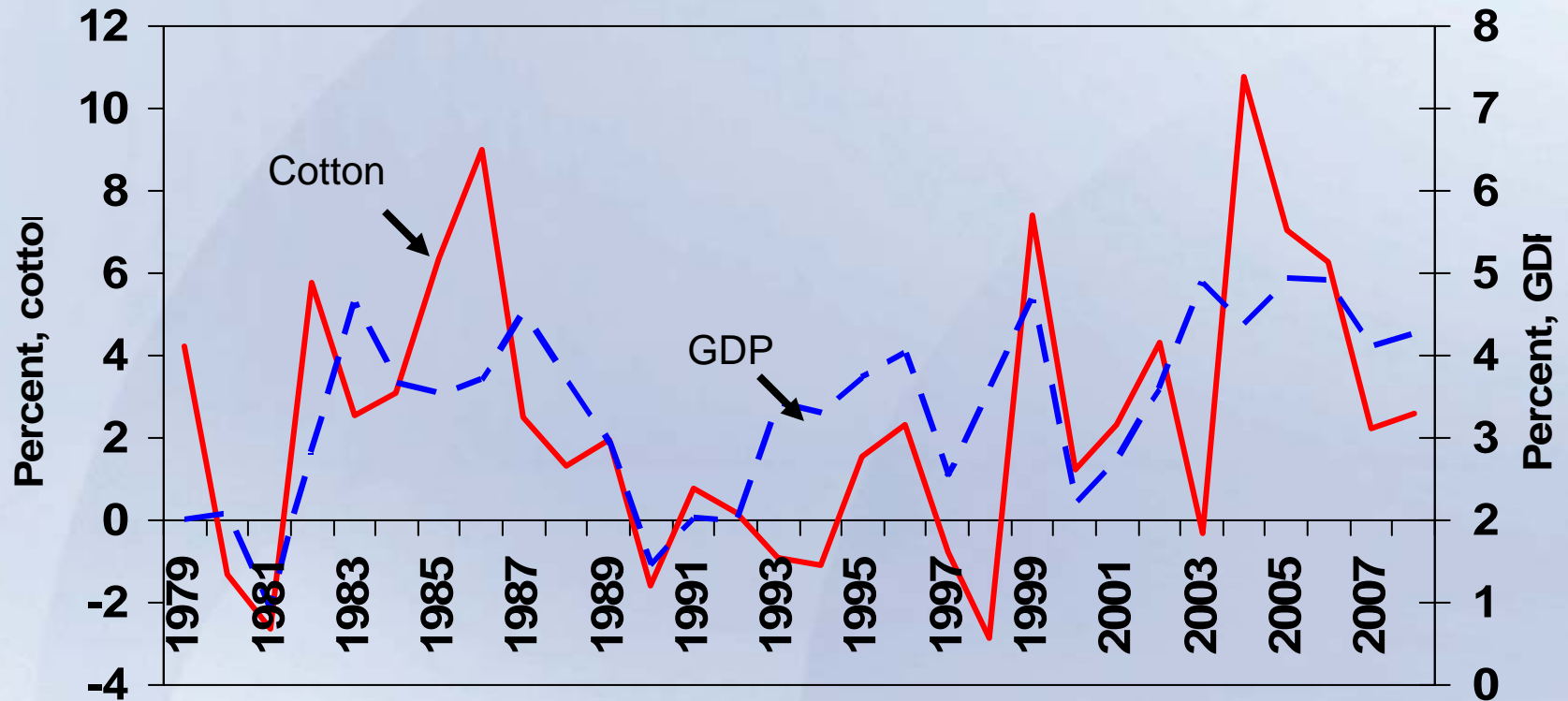
Sources: Cotlook Ltd and National Cotton Council (2007 is Aug-Jan) .



U.S. Domestic Cotton Consumption: Total and Per Capita



World Cotton Consumption and Economic Growth



Sources: USDA, International Monetary Fund, and GlobalInsight .

